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SUBJECT Hidden Military Appropriations in Soviet Budget/
Economic Importance of Slave Labor

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1. I cannot insist too strongly that the statistics of the Soviet National Income and of the State Budget, whether expressed in terms of percentages or in "absolute" figures, are quite meaningless. Similarly, figures on military expenditures of the Soviet budget serve only to mislead and to fool the public at home and the governments abroad. The operation or manipulation of several types of rubles in the Soviet economy is conducive to the statistical policy employed by the Soviets. As a result, many Western economists and public officials are misled by the Soviet economic statistics--especially in the fields of national income and military expenditure accounts. An example of this manipulation of the ruble is the difference in the purchasing power of the ruble in the field of armaments and in the wage ratio. For the procurement of armaments, military supplies and goods of military establishments, the relation of the ruble to the dollar is 4:1. The wage ruble ratio is 28:1.
2. In analyzing Soviet economic processes, it should be understood that four different types of rubles exist:
 - (a) State procurement ruble of agricultural raw materials with the ruble-dollar ratio of 1.6:1
 - (b) State industrial procurement ruble of industrial products with ratio of 4:1
 - (c) Consumer ruble with a ruble-dollar ratio of 28:1
 - (d) Official foreign exchange ruble with a ratio of 4:1
3. The announced annual budgets for the Soviet Union are entirely misleading and the figures for the military expenditures are outright frauds. Actually, much more is spent for armaments and for armament plants than the budgets indicate. The additional allowances within the budgets are under other categories.
4. The managers of armament industries are not tied down with budgetary limitations as long as they meet the quantity and quality specifications, up to 90%. The plants are given extra bonuses and "profit sharing" funds.

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5. Ammunition plant managers are not required to render an accounting to the State and are not subject to other civil controls. They are responsible only to a special Military Examining Commission. Whenever an ammunition plant or manager of the construction operations for the Minister of Defense exceed the planned expenditures, they are entitled to additional funds or additional labor or material on short notice. This is in sharp contrast with the practice existing in the construction or manufacturing industries of non-military significance.
6. In the non-military construction and production industries over-plant expenditures are considered a "crime". Acquisition of additional funds is a hard and prolonged process. Likewise, the procurement of needed material and labor is often a long-drawn out procedure. Therefore there is cause for complaint about under-fulfillment in the construction and consumers' goods production industries. Again, I cannot stress too strongly and emphatically that in order to understand the Soviet economic operations we must understand that the entire USSR is operated like a large military camp with the entire economic policy directed toward one objective, namely, the building up of military might at the expense of the standard of living of the Russian people.
7. In 1938 there were approximately 19 million adults in the slave labor camps in the USSR, of whom about 20% were women. Utilization of this vast number of State slaves in the USSR serves the following economic and political purposes: As a source of revenue for the upkeep of the tremendous police and military force (MVD, MGB); as a revenue of mobile seasonal labor on which to draw for various industries with seasonal peaks; as a means of effecting transportation and housing equalities by transferring and housing groups of single individuals (instead of family units); to provide labor force for newly developed and undesirable areas; as a source of substantial revenue for the government in gold production; as a whip of terror over the heads of all (free) workers in the USSR.
8. The productivity of slave labor during the period 1938-1943 was about one-half that of (free) labor engaged in similar work (mostly manual labor). State expenditures on slave labor per day was as follows:
- | | | |
|---|---------------------|--------------|
| Wages | 30 rubles per day | |
| Food | 1.50 rubles per day | |
| Per head cost to the Government per day | | 1.80 rubles |
| Wages of (free) labor averaged about | | 16.00 rubles |
9. Slave labor is also hired out to industrial trusts at 12 rubles per day (1940). The actual cost according to the labor camps on accounting per head costs was as follows:
- | | |
|---|-------------|
| Expenditures for upkeep of MVD and MGB organs | 5.70 rubles |
| Food | 1.50 |
| Monetary pay | .30 |
| Amortization of inventory | 1.00 |
| Amortization of barracks | .10 |
| Total charge per person per day | 8.60 rubles |
10. Despite surface indications, the hiring of slave labor by industrial management proves more costly to the enterprise per head, and as a rule enterprises do not like to use slave labor. However, in order to meet construction deadlines on the seasonal peak requirements, such hiring is a necessity. The extra cost must be covered by overall costs in non-military segments of industry.
11. In the gold mining industry, slave labor produces about \$4.00 worth of gold per day.
12. The published ratio of relative values of industrial and agricultural products is artificially inflated in favor of industry. Furthermore, the ratio is distorted by the fact that agricultural products are "confiscated" from the collective farmers by paying the peasants in 1913-14 prices with current rubles, and selling these products to the population (including the peasants) at 1,200 to 1,500 percent profit. I am convinced that in real values the agricultural segment of the economy is producing the greater share of the total national production than the official figures indicate.

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15. Ruthless exploitation of the agricultural segment of the population provides the largest source of industrialization and military buildup of the USSR. This is evident when we consider that production costs on State farms were about eight times higher than the prices the State paid for similar products to the cooperative peasants. On State farms, the government pays prevailing, though miserable, wages, which makes the cost of the products to the State several hundred percent higher than the cost of confiscated products.
14. I believe that by devious manipulation of budgetary figures, the Soviets have succeeded in misleading the Western economic analysts and public officials as to the total magnitude of the USSR efforts in military preparedness.

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